

**CHELSEA AREA FIRE AUTHORITY**  
**REPORT ON AUDIT OF FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

## **CHELSEA AREA FIRE AUTHORITY**

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### **AUDITORS**

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Certified Public Accountants

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June 24, 2014

Authority Board  
Chelsea Area Fire Authority  
200 West Middle Street  
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**INDEPENDENT AUDITORS' REPORT**

Honorable Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chelsea Area Fire Authority as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements are list on the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Chelsea Area Fire Authority as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 - 10 and 32 - 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chelsea Area Fire Authority's basic financial statements. The combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Pfeffer, Hanniford & Palka, P.C.*

PFEFFER, HANNIFORD & PALKA  
Certified Public Accountants

## **MANAGEMENT DISCUSSION AND ANALYSIS**

## **Management Discussion and Analysis**

### **December 31, 2013**

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Within this section of the Chelsea Area Fire Authority's annual financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the year ended December 31, 2013. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

#### **Overview of the Financial Statements**

Management's Discussion and Analysis introduces the Authority's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

#### ***Government-Wide Financial Statements***

The Authority's annual reports include two government-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Position. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as Net Position. Over time, increases or decreases in Net Position may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's Net Position changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

Both government-wide financial statements distinguish governmental activities of the Authority that are intended to recover all or a significant portion of their costs through user fees and charges or by taxes collected. The Authority's financial reporting includes all the funds of the Authority and, additionally, organizations for which the Authority is accountable.

#### ***Fund Financial Statements***

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Authority uses funds to ensure and demonstrate compliance with finance-related laws and regulations.

The Authority has two kinds of funds:

**Governmental funds** are reported in the financial statements and encompass essentially the same functions as governmental activities in the government-wide financial statements except with a different focus on the financial activity. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of these resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term. Since the focus of the government-wide financial statements includes a long-term view, a reconciliation of these fund balances has been completed to detail it's relation to Net Position.

### ***Notes to the financial statements***

The accompanying notes to the financial statements provide information essential to a full understanding of both the government-wide and fund financial statements.

### ***Other information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Other supplementary information includes detail by fund for receivables, payables, transfers, and payments within the reporting entity.

### **Financial Analysis of the Authority as a Whole**

The Authority ended up with net position of \$1,021,671, this is a decrease of \$296,154 from the prior year.

The following tables provide a summary of the Authority's financial activities and changes in Net Position:

#### **Summary of Net Position**

	<b>Governmental Activities</b>	
	<b>12/31/2013</b>	<b>12/31/2012</b>
Current and other assets	\$ 1,618,691	\$ 1,792,714
Capital assets	1,382,689	1,593,476
<b>Total assets</b>	<b>3,001,380</b>	<b>3,386,190</b>
Accounts payable	86,519	76,833
Accrued expenses	52,828	48,459
Deferred revenue	873,729	845,782
Debt payable	966,633	1,097,291
<b>Total liabilities</b>	<b>1,979,709</b>	<b>2,068,365</b>
<b>Net Position</b>		
Invested in capital assets, net of related debt	416,056	496,185
Unrestricted	605,615	821,640
<b>Total net position</b>	<b>\$ 1,021,671</b>	<b>\$ 1,317,825</b>



## Summary of Changes in Net Position

	<b>Governmental Activities</b>	
	<b>12/31/2013</b>	<b>12/31/2012</b>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 15,854	\$ 16,402
Operating grants and contributions		181,548
General revenues	1,257,532	1,224,758
<b>Total revenues</b>	1,273,386	1,422,708
<b>Expenses for fire services</b>	1,569,540	1,483,118
<b>Increase (decrease) in net assets</b>	(296,154)	(60,410)
<b>Beginning net position</b>	1,317,825	1,378,235
<b>Ending net position</b>	\$ 1,021,671	\$ 1,317,825

### **Changes in Financial Status**

The net position of the Authority decreased \$296,154 for the year ended December 31, 2013. This decrease is due to a decrease in grant revenues and costs from a new lease agreement.

### **Financial Analysis of the Authority's Funds**

The Authority's General Fund had a net decrease in fund balance from current year operations of \$211,541. This was mainly due to a decrease in grant funding and an increase in lease payments.

### **General Fund Budgetary Highlights**

The original General Fund budget adopted by the Authority was created prior to the beginning of the fiscal year outlining the Authority's anticipated financial operations. No amendments were made during the year to this budget. The General Fund expenses exceeded budgeted appropriations during the year.

### **Capital Asset and Debt Administration**

The Authority had no new capital assets added during the year.

The Authority did pay principal of \$130,658 and interest of \$44,178 this year for capital lease agreements bringing the debt outstanding to \$966,633. No new debt was incurred during the year.

### **Economic Conditions and Future Activities**

In May 2009 the Chelsea Area Fire Authority passed a levy of 1.80 mills against all taxable real and tangible property within the limits of the Chelsea Area Fire Authority for a period of five (5) years (2009 - 2013). The City of Chelsea began collecting the Chelsea Area Fire Authority millage in the summer of 2009 and the Townships of Lima, Lyndon and Sylvan began collecting the Chelsea Area Fire Authority millage on the December 2009 tax bills. The anticipated revenues from this levy are approximately \$1,431,000 to be used for both operations and capital outlay purchases. The Chelsea Downtown Development Authority receives a small portion of the mills collected from the Chelsea Downtown Development District only. Future property values and chargebacks may still significantly affect these revenues. The Authority is in the process of preparing for a renewal of their millage once it expires.

### **Contacting the Authority's Financial Management**

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have any further questions about this report or request additional information please contact the Chelsea Area Fire Authority at 200 West Middle Street, Chelsea, Michigan 48118.

## **BASIC FINANCIAL STATEMENTS**

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**CHELSEA AREA FIRE AUTHORITY**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2013**

	<u><b>ASSETS</b></u>	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 780,746	
Taxes receivable	829,755	
Prepaid expenses	8,190	
Capital assets - net of depreciation	<u>1,382,689</u>	
<b>Total assets</b>		\$ 3,001,380
	<u><b>LIABILITIES</b></u>	
<b>LIABILITIES</b>		
Accounts payable	73,719	
Interest payable	12,799	
Accrued liabilities	6,474	
Deferred revenue	873,729	
Vested employee benefits		
Due in more than one year	46,355	
Capital leases payable		
Current	136,344	
Non-current	<u>830,289</u>	
<b>Total liabilities</b>		<u>1,979,709</u>
	<u><b>NET POSITION</b></u>	
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	416,056	
Unrestricted	<u>605,615</u>	
<b>Total net position</b>		<u><u>\$ 1,021,671</u></u>

The notes are an integral part of the financial statements.

**CHELSEA AREA FIRE AUTHORITY**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

		<b>Program Revenues</b>	<b>Net (Expense) Revenue and Changes in Net Position</b>
<b><u>Functions/Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Charges for Services</u></b>	<b><u>Governmental Activities</u></b>
Governmental activities:			
Fire protection	\$ (1,525,362)	\$ 15,854	\$ (1,509,508)
Interest on long-term debt	(44,178)		(44,178)
<b>Total governmental activities</b>	<b><u>\$ (1,569,540)</u></b>	<b><u>\$ 15,854</u></b>	<b><u>(1,553,686)</u></b>
<b>General Revenues:</b>			
Property taxes levied for general purpose			1,243,248
Investment earnings			1,079
Other income			13,205
<b>Total general revenues</b>			<b><u>1,257,532</u></b>
<b>Changes in net position</b>			<b>(296,154)</b>
<b>Net position, January 1, 2013</b>			<b><u>1,317,825</u></b>
<b>Net position, December 31, 2013</b>			<b><u>\$ 1,021,671</u></b>

The notes are an integral part of the financial statements.

## **FUND FINANCIAL STATEMENTS**

CHELSEA AREA FIRE AUTHORITY

BALANCE SHEET  
GOVERNMENTAL FUND  
DECEMBER 31, 2013

Major Fund  
General Fund

ASSETS

**CURRENT ASSETS**

Cash and cash equivalents	\$ 780,746
Taxes receivable	829,755
Prepaid items	<u>8,190</u>
<b>Total current assets</b>	<u><u>\$ 1,618,691</u></u>

LIABILITIES AND FUND BALANCES

**LIABILITIES**

Accounts payable	\$ 73,719
Payroll liabilities	6,474
Deferred revenue	873,729
Interest payable	<u>12,799</u>

<b>Total liabilities</b>	<u><u>\$ 966,721</u></u>
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**FUND BALANCES**

Nonspendable for prepaids	8,190
Restricted for:	
Fire protection	468,944
Fire trucks - debt service	<u>174,836</u>

<b>Total fund balances</b>	<u><u>651,970</u></u>
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<b>Total liabilities and fund balances</b>	<u><u>\$ 1,618,691</u></u>
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The notes are an integral part of the financial statements.



**CHELSEA AREA FIRE AUTHORITY**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF NET POSITION  
DECEMBER 31, 2013**

**Amount reported for governmental activities in the Statement  
of Net Position are different because:**

<b>Total fund balance per balance sheet</b>	<b>\$ 651,970</b>
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Capital assets used in governmental activities are not financial  
resources and therefore, are not reported in the funds.

Historical cost	\$ 2,476,347
Accumulated depreciation	<u>(1,093,658)</u>

<b>Capital assets net of depreciation</b>	<b>1,382,689</b>
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Some liabilities are not due and payable in the current period  
and therefore are not reported in the funds. These include:

Capital leases payable	(966,633)
Vested employer benefits	<u>(46,355)</u>

<b>Total</b>	<b><u>(1,012,988)</u></b>
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<b>Net position of governmental activities</b>	<b><u><u>\$ 1,021,671</u></u></b>
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The notes are an integral part of the financial statements.

**CHELSEA AREA FIRE AUTHORITY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u><b>General Fund</b></u>
<b>REVENUES</b>	
Local unit - Contributions	
Dexter Township	\$ 15,854
Tax Revenue	
City of Chelsea	390,560
Lima Township	311,906
Lyndon Township	218,774
Sylvan Township	322,008
Donations	215
Miscellaneous	10,847
Interest	1,079
Reimbursements	<u>2,143</u>
<b>Total revenue</b>	<u><u>1,273,386</u></u>
<b>EXPENDITURES</b>	
Current	
Fire protection	1,310,091
Debt service	
Principal	130,658
Interest	<u>44,178</u>
<b>Total expenditures</b>	<u><u>1,484,927</u></u>
<b>Net change in fund balance</b>	(211,541)
<b>FUND BALANCE, JANUARY 1, 2013</b>	<u>863,511</u>
<b>FUND BALANCE, DECEMBER 31, 2013</b>	<u><u>\$ 651,970</u></u>

The notes are an integral part of the financial statements.

**CHELSEA AREA FIRE AUTHORITY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**Amounts reported for governmental activities in the Statement  
of Activities are different because:**

<b>Net change in fund balance - governmental fund</b>	<b>\$ (211,541)</b>
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Governmental funds report capital outlay as expenditures.  
However, in the Statement of Activities the cost of those  
assets are allocated over their useful lives as depreciation  
expense. The amount by which depreciation exceeded  
capital outlay is as follows:

Depreciation expense	(210,787)
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Repayment of capital lease contracts is an expenditure in the  
governmental funds, but the payment reduces long-term liabilities  
in the Statement of Net Position installment contracts

130,658
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Vested employee benefits reported in the statement of  
activities do not require the use of current financial resources  
and therefore are not reported as expenditures in the funds -  
net decrease in accrual for vested employee benefits

<u>(4,484)</u>
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**Change in net position of governmental activities**

<u><u>\$ (296,154)</u></u>
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The notes are an integral part of the financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

**CHELSEA AREA FIRE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. REPORTING ENTITY**

The Chelsea Area Fire Authority was established under the provisions of Act 57, Public Acts of 1988. The incorporating municipalities currently include the Townships of Lima, Lyndon and Sylvan. The Authority is governed by a five (5) person Board of Trustees. One at large trustee and one trustee from each incorporating municipality. The Authority provides fire protection and emergency services within the total territory of the incorporating municipalities pursuant to a contract with the Authority as well as to certain sections of Dexter Township through an annual contract. The accompanying financial statements present the Authority's entities for which the Authority is considered to be financially accountable. The Authority has no component units.

The Authority receives its funding from (4) four of the (5) five member municipality's it provides fire protection and emergency services through the tax collection process. Only Dexter Township pays its annual contribution throughout the year in twelve (12) monthly installments. Dexter's contribution percentage is based upon a five (5) year sliding average of man hours.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 39 "The Financial Reporting Entity", these financial statements present all activities of the Authority. There are no component units of the Authority using the criteria established by the GASB for determining the reporting entity.

**B. BASIC FINANCIAL STATEMENTS**

In accordance with GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Position and Statement of Activities) report on the Authority as a whole. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The government-wide Statement of Net Position reports all financial and capital resources of the Authority. It is displayed in a format of assets less liabilities equals Net Position, with the assets and liabilities shown in order of their relative liquidity.

**CHELSEA AREA FIRE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expense between governments that allocate direct expenses and those that do not. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Also, part of the basic financial statements are fund financial statements for the governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures of fund category and of the governmental funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements.

The Authority reports the following major governmental fund:

- The General Fund accounts for all financial resources of the Authority not accounted for in another fund.

**C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The governmental fund statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

1. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues, (including motor vehicle license fees), charges for services, fines, forfeits and penalties, and interest.
2. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
3. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

**CHELSEA AREA FIRE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Authority's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

**D. CAPITAL ASSETS**

Under GASB Statement No. 34, all capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$1,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated under the straight line method, over the remaining useful lives of the related capital assets.

Capital assets are depreciated using the straight-line method over the following useful lives:

Equipment	5 to 20 years
Vehicles and trucks	7 to 30 years
Buildings	20 years

**E. MANAGEMENT ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CHELSEA AREA FIRE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. BUDGETS**

An annual operating budget on the modified accrual basis of accounting consistent with accounting principles generally accepted in the United States of America is formally adopted for the General Fund and all Special Revenue funds. The budget can be amended by approval from the Authority's Board. If necessary, budget amendments can be presented to the Board at the regular meetings. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. All annual appropriations lapse at the fiscal year end. Expenditures were under the budget by \$4,689.

**G. RISK MANAGEMENT**

The Authority is exposed to various risks of loss pertaining to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for these claims. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage.

**H. VESTED EMPLOYEE BENEFITS**

**Compensated Absences** - The Authority's Personal Time off (PTO) policy permits eligible employees to accumulate earned but unused PTO up to 500 hours. PTO is accrued when incurred in the government-wide financials. A liability for these amounts is reported in the governmental funds only for employee termination as of year end.

**I. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

**J. RECEIVABLES**

Receivables in governmental activities are all primarily due from other governments. No allowance for doubtful accounts is provided for.

**K. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 15, 2014 the date the financial statements were available to be issued.



**CHELSEA AREA FIRE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 2 - EQUITY**

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Authority board through approval or resolutions. Assigned fund balance is a limitation imposed by a designee of the Authority board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed, or assigned to those purposes.

**NOTE 3 - NET POSITION**

In the government-wide financial statements, net position is classified into the following categories:

**Invested in Capital Assets**

This category presents capital assets net of depreciation and reduced by debt applicable to the acquisition or construction of these assets.

**Restricted Net Position**

This category presents the net position restricted by external parties (creditors, grantors, contributors or laws and regulations).

**Unrestricted Net Assets**

This category presents the net position of the Authority which is not restricted.

**CHELSEA AREA FIRE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 4 - PROPERTY TAXES**

The Authority's property taxes are levied and become a lien on December 1<sup>st</sup> based on the taxable valuation of property located in the Authority as of the preceding December 31<sup>st</sup>. These taxes are due on February 14<sup>th</sup>, with the final collection date of February 28<sup>th</sup> before they are added to the county delinquent tax rolls.

For the year ended December 31, 2013, the Authority recognized the property taxes levied December 1, 2012 as revenue. Total taxable value was \$710,020,931 and the millage rate was set at 1.80.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2013 was as follows:

	<b>Balance 12/31/2012</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance 12/31/2013</b>
<b>Depreciable Assets</b>				
Equipment	\$ 331,767	\$	\$	\$ 331,767
Vehicles and Trucks	1,851,437			1,851,437
Buildings	293,143			293,143
<b>Total depreciable assets</b>	<u>2,476,347</u>			<u>2,476,347</u>
<b>Accumulated Depreciation</b>				
Equipment	(258,005)	(19,983)		(277,988)
Vehicles and Trucks	(609,900)	(182,661)		(792,561)
Buildings	(14,966)	(8,143)		(23,109)
<b>Total accumulated depreciation</b>	<u>(882,871)</u>	<u>(210,787)</u>		<u>(1,093,658)</u>
<b>Total capital assets, net</b>	<u>\$ 1,593,476</u>	<u>\$ (210,787)</u>	<u>\$</u>	1,382,689
<b>Related long term debt outstanding at December 31, 2013</b>				<u>(966,633)</u>
<b>Governmental assets, net of related long-term debt</b>				<u>\$ 416,056</u>

Depreciation expense is charged to the following activities:

Public Safety	<u>\$ 210,787</u>
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The Authority utilizes the straight line method to depreciate capital assets over their useful lives.

**CHELSEA AREA FIRE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 6 - LONG-TERM DEBT**

The following is a summary of long-term debt activity for the Authority:

	<u>Balance 12/31/2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2013</u>	<u>Due within one year</u>
Vested employee benefits					
Compensated absences	\$ 41,871	\$ 4,484	\$	\$ 46,355	\$
Pierce Pumper Truck	364,264		44,671	319,593	46,926
Pierce Tanker Truck	177,482		56,645	120,837	59,125
Pierce Ladder Truck	555,545		29,342	526,203	30,293
	<u>\$ 1,139,162</u>	<u>\$ 4,484</u>	<u>\$ 130,658</u>	<u>\$ 1,012,988</u>	<u>\$ 136,344</u>

**Capital Leases** - The Authority has entered into several capital leases to purchase fire equipment, trucks, and a modular building. The interest rates on these leases range from 4.38% to 6.25% with maturity dates ranging from December 2015 until March 2027.

The Authority's outstanding lease agreements include 2 pumper trucks for \$120,836 and \$319,594 respectively and a ladder truck for \$526,203. These leases qualify as capital leases.

The debt service for capital leases are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 136,344	\$ 38,492	\$ 174,836
2015	142,284	32,553	174,837
2016	84,076	26,348	110,424
2017	87,738	22,686	110,424
2018	91,566	18,858	110,424
2019 - 2024	249,609	50,247	299,856
2024 - 2027	175,016	14,415	189,431
<b>Total</b>	<u>\$ 966,633</u>	<u>\$ 203,599</u>	<u>\$ 1,170,232</u>

Total interest expense for the year ended December 31, 2013, was \$44,178.

**CHELSEA AREA FIRE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 7 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority deposits are in accordance with statutory authority.

As of December 31, 2013 cash and cash equivalents consist of the following:

**Cash and cash equivalents**

Checking accounts	\$ 201,749
Savings	477,348
Flex insured account	169,006
<b>Total cash and cash equivalents</b>	<b>\$ 848,103</b>

Cash is presented in the financial statements  
in the following areas:

**Statement of Net Position**

Cash and cash equivalents	<b>\$ 780,746</b>
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The Authority's cash and investments are subject to various types of risk, which are examined in more detail below:

The carrying amount of cash is stated at \$780,746 as of December 31, 2013. The difference between the carrying amounts and amounts mentioned above stem from outstanding checks and a large deposit in transit.

**Deposits - Custodial Credit Risk**

This is the risk that in the event of a bank failure, the Authority will be able to recover its deposits. The Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

As of December 31, 2013, deposits in banks totaled \$848,103 which was exposed to custodial credit risk as follows:

Insured by FDIC	\$ 665,035
Uninsured and uncollateralized	183,068
	<b>\$ 848,103</b>

The Township's investment policy does not address this risk.

As of January 1, 2013 funds in noninterest-bearing accounts will no longer receive unlimited deposit insurance. FDIC insurance will be limited to the legal maximum of \$250,000 per public unit for all time and savings deposits and \$250,000 per public unit for all demand deposits.

**CHELSEA AREA FIRE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 8 - DEFINED BENEFIT PLAN -**  
**MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)**

Effective August 2007 the Authority provides a defined benefit pension plan under MERS. MERS is an agent multiple-employer; state-wide, defined benefit public employee retirement plan created under Public Act 135 of 1945 and now operates under Public Act 220 of 1996. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. Under Public Act 220, MERS became an independent public non-profit corporation independent from State government. The effective date of independence was August 16, 1996, at which time MERS ceased to be a part of the State of Michigan, Department of Management and Budget.

As of December 31, 2013 the Authority had twelve (12) covered employees and twenty-five (25) total employees. Covered and total payrolls for the year then ended were \$634,870 and \$656,382 respectively. Currently there are no retirants receiving benefits from the plan. Total employer contributions made to the plan during the year ended was \$32,996. Total employee contributions were \$30,963. Employees must contribute 5% of wages.

At December 31, 2012, the overfunded pension benefit obligation was \$70,896, determined as follows:

Actuarial accrued liabilities	\$ 294,180
Net assets available for benefits, at cost (at market \$319,244)	<u>365,076</u>
<b>Unfunded (overfunded) actuarial accrued liabilities</b>	<b><u><u>\$ (70,896)</u></u></b>
Fiscal Year Beginning	March 1, 2014
Annual Required Contribution (ARC)	\$ 27,108
Expected investment return	8%
Inflation expected	2.50%
Method of activity	Entry age normal cost
Required contribution rate	4.27%

**CHELSEA AREA FIRE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**NOTE 9 - NEW ACCOUNTING STANDARDS**

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the resources reported in the governmental funds. Under this standard, the fund balance classifications of reserved, designated and unreserved will be replaced with five new classifications of non-spendable, restricted, committed, assigned and unassigned.

The hierarchy of five possible classifications of fund balance is:

**Nonspendable Fund Balance**

- Amounts that cannot be spent due to form; for example, inventories and prepaid amounts. Also, long-term loan and notes receivables, and property held for resale would be reported here unless the proceeds are restricted, committed or assigned.
- Amounts that must be maintained intact legally or contractually (corpus or principal of a permanent fund).

**Restricted Fund Balance**

- Amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation. This is the same definition used by GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments, for restricted Net Position.

**Committed Fund Balance**

- Amounts constrained for a specific purpose by a government using its highest level of decision-making authority. It would require action by the same group to remove or change the constraints placed on the resources.
- Action to constrain resources must occur prior to year-end; however, the amount can be determined in the subsequent period.

**Assigned Fund Balance**

- For all governmental funds other than the general fund, any remaining positive amounts not classified as nonspendable, restricted or committed.
- For the general fund, amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts. Amount reported as assigned should not result in a deficit in unassigned fund balance.

**Unassigned Fund Balance**

- For the general fund, amounts not classified as nonspendable, restricted, committed or assigned. The general fund is the only fund that would report a positive amount in unassigned fund balance.
- For all governmental funds other than the general fund, amount expended in excess of resources that are nonspendable, restricted, committed or assigned (a residual deficit). In determining a residual deficit, no amount should be reported as assigned.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CHELSEA AREA FIRE AUTHORITY**

**GENERAL FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Budget</b>			<b>Variance with Final Budget Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>REVENUES</b>				
Local unit contributions for operations	\$	\$	\$ 15,854	\$
Tax revenue			1,243,248	
Miscellaneous income			10,847	
Interest			1,079	
Contributions			215	
Reimbursements			2,143	
<b>Total revenues</b>	<u>1,297,195</u>	<u>1,297,195</u>	<u>1,273,386</u>	<u>(23,809)</u>
<b>EXPENDITURES</b>				
Current:				
Public safety			1,310,091	
Debt service				
Principal			130,658	
Interest			44,178	
<b>Total expenditures</b>	<u>1,489,616</u>	<u>1,489,616</u>	<u>1,484,927</u>	<u>4,689</u>
<b>Net change in fund balance</b>	(192,421)	(192,421)	(211,541)	(19,120)
<b>FUND BALANCE, JANUARY 1, 2013</b>	<u>863,511</u>	<u>863,511</u>	<u>863,511</u>	
<b>FUND BALANCE, DECEMBER 31, 2013</b>	<u>\$ 671,090</u>	<u>\$ 671,090</u>	<u>\$ 651,970</u>	<u>\$ (19,120)</u>



**CHELSEA AREA FIRE AUTHORITY**

**SCHEDULES OF PENSION FUNDING PROGRESS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2013**

In accordance with the Governmental Accounting Standards Board Statements No. 25 and 27, the following information is a required part of the basic financial statements.

The most recent actuarial report available was December 31, 2012.

**FIRE EMPLOYEES**

<b><u>Actuarial Valuation Date</u></b>	<b><u>Actuarial Value of Assets</u></b>	<b><u>Actuarial Accrued Liability(AAL)</u></b>	<b><u>Unfunded (Over funded) Accrued Liability (UAAL)</u></b>	<b><u>Funded Ratio</u></b>	<b><u>Covered Payroll</u></b>	<b><u>UAAL as a Percentage of Covered Payroll</u></b>
December 31, 2007	\$ 5,461	\$ 41,910	\$ 36,449	13.06 %	\$ 239,152	15.24 %
December 31, 2008	\$ 51,307	\$ 84,845	\$ 33,538	60.47 %	\$ 365,374	9.18 %
December 31, 2009	\$ 127,908	\$ 130,176	\$ 2,268	98.26 %	\$ 512,979	0.44 %
December 31, 2010	\$ 207,767	\$ 180,522	\$ (27,245)	(15.09) %	\$ 628,145	(4.34) %
December 31, 2011	\$ 277,849	\$ 230,491	\$ (47,358)	(20.55) %	\$ 643,416	(7.36) %
December 31, 2012	\$ 365,076	\$ 294,180	\$ (70,896)	(24.09) %	\$ 643,870	(11.01) %



**PFEFFER ■ HANNIFORD ■ PALKA**

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June 24, 2014

Chelsea Area Fire Authority  
200 West Middle Street  
Chelsea, MI 48118

Dear Honorable Authority Members:

During our audit of the Chelsea Area Fire Authority we came across the following matters that we would like to discuss with you as part of our audit presentation for the year ending December 31, 2013.

The matter which we would like to discuss with you is as follows:

Auditing standards require us to formally communicate to you deficiencies in your internal controls and accounting procedures.

There are certain issues (deficiencies) which were previously considered general comments but under the current standards are now considered significant deficiencies.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's or detected by the entity's internal control.

We consider the following to be a material weakness of the Authority:

- Historically, the Authority has relied on independent external auditors in the preparation of their financial statements and required disclosures. The Authority has determined that the cost/benefit of preparing the financial statements and disclosures are best served by continuing this practice.

The following are other comments relating to the Authority's accounting and record keeping procedures:

- Currently it is the policy to capitalize any individual asset with a cost of more than \$1,000 and an estimated useful life greater than one year. We recommend this value be increased to \$5,000.
- The building for the Authority is located on land owned by the City of Chelsea. There is no formal document agreement regarding the terms of this agreement.
- There are inconsistencies with regard to the purchase order form the Authority uses. It doesn't always appear to be filled out entirely. A policy should be created and enforced to ensure all payments are approved.
- In reviewing credit card activity:
  1. We also noticed several instances where an invoice was missing for documentation for the expenditure incurred.
  2. We also noticed several finance charges and interest charges incurred because of late payments being made.
  3. We recommend credit card charges be reviewed, recorded, and paid in a timely manner.
  4. It was noted that sales tax was paid on credit card purchases. The Authority is tax exempt and should not be paying sales tax.
- Checks are not timely deposited in the bank. The Authority needs to have better internal controls in place in order to safeguard their assets.
- The Authority needs to be aware of items purchased on the Authorities behalf and whether they are legal expenditures (social gatherings).
- The Authority had some checks that were backdated into the cash account. These amounts should really be treated as payables.

### **Conclusion**

Thank you for your assistance and hospitality toward our firm while conducting the audit of the Chelsea Area Fire Authority.

If you should have any questions, comments or concerns please do not hesitate to call us.

This report is intended solely for the information and use of the Fire Authority Board and management of the Chelsea Area Fire Authority and is not intended to be and should not be used by anyone other than the specified parties.

*Pfeffer, Hanniford & Palka, P.C.*